

# HOW AGRICULTURE IS PERCEIVED FROM THE BANKS OPERATING IN ALBANIA

*Eneida Thomaj, Msc.*

Agricultural University of Tirana, Albania

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## Abstract

This paper is oriented in trying to analyze the overall opinion or perception that Albanian banks have toward agriculture sector in general, and agriculture lending in particular. To get a full picture of the situation, different statistical parameters regarding banking activity in Albania are presented, such as the banking sector expansion in Albanian territory to understand how rural and urban areas are covered from the banking presence; their electronic products offered to understand the ease of contact from the client with the banks etc. A survey was realized (which included ten of the biggest banks operating in Albania). The survey tries to gain knowledge about the future expectations of the banks as per agriculture lending; their perception as per client orientation behavior; the banks future decision as what share of their portfolio will be dedicated to agriculture etc. The survey gives answers to question like, what part of loan portfolio is dedicated to agriculture and growth expectations in the future; how are loan standards being applied and expectations in the future; main factors affecting loan demand etc. At the end, this paper concluded about the future expectations of loan portfolio structure of banking institutions.

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**Keywords:** Bank, agriculture, loan

## Introduction

There are 16 banks operating in Albania where not more than three of them are with majority of domestic capital specifically, 13 banks have 81% of foreign private capital, while 3 of them have domestic private capital and 19% foreign capital (Bank of Albania, 2013). During 2013, Bank of Albania granted new licences for the banking institutions operating in the country such as mobile banking, POS virtual and E-commerce. The technology that banks are applying in Albania is still far behind the banking technology in other surrounding and european countries. For example, there is low usage of e-banking option due to cost granted to such operations and also that people in general do not know this banking technology. This mainly due to the low

level of technology used in general in the population. Population living in the capital or in the other more developed cities of the country do have more approaches to internet and facilities that such media offer, while other rural areas are far behind of technology usage. These factors, and other described below have affected the way agriculture lending is perceived from the banking sector in Albania.

### General facts of banking sector in albania

The Albanian financial and banking sector structure has not change significantly in the last years. According to 2013 figures of Bank of Albania, the banking sector is comprised of 16 commercial banks; 21 financial non-banking institutions; 1 representative office of a foreign bank; 333 foreign exchange offices; 121 savings companies and 2 unions of savings companies. Still in the market, some rumors of foreign banks closing their activities in the domestic market are perceived because of the deterioration of credit portfolio and also because of economy stagnation.

If we refer to some main statistical indicator as per the banking sector in Albania for the 2007 – 2013 we can observe some visible trends see. Table 1 below (Bank of Albania, 2013).

Table 1: Statistical indicators as per the banking sector in Albania (2007 – 2013)

	2007	2008	2009	2010	2011	2012	2013
No. of banks	16	16	16	16	16	16	16
No. of staff	5,155	6,493	6,404	6,384	6,714	6,836	6,686
No. of branches / domestic agencies	399	511	524	529	534	538	529
Average staff number per:							
Banks	322	406	400	399	420	427	418
Bank's unit	13	13	12	12	13	13	13
Population (000)	2,958	2,936	2,919	2,907	2,902	2,899	2,896
Population per:							
Bank	184,891	183,522	182,417	181,710	181,387	181,174	180,997
Bank's unit	7,414	5,746	5,570	5,496	5,435	5,388	5,474
Bank's staff	574	452	456	455	432	424	433

While bank's number present in Albanian market has not changed, numbers of branches or agencies have increased. So, as per 2013 comparing to 2007, total number of operating banks is the same (16) while, number of branches / agencies has increased by 1.3 times.

Given that the average population number during this period has not undergone any significant change, increasing the number of branches and agencies has significantly improved the ratio "number of population per financial institution". According to that, while in 2007 the average number of population per institution was 7,414 in 2013 was lower at the level of 5,474 or about 0.74 times lower. These ratios, which are continuously improving,

are mainly driven because of increased competition among operators to occupy bigger market share. Furthermore we can try to analyze the tendency of bank unit's increase as per geographical extension see Table 2 below, (Bank of Albania, 2013).

Table 2: Geographical distribution of banks in Albania (as per regions)

Region	2007	2008	2009	2010	2011	2012	2013
Tiranë	161	208	210	210	212	218	213
Durrës	36	46	51	54	54	55	53
Fier	32	43	45	44	44	43	42
Elbasan	23	28	29	30	30	30	30
Korcë	30	37	38	38	37	37	38
Shkodër	17	23	24	25	25	25	24
Vlorë	32	38	39	41	41	42	41
Lezhë	21	26	26	25	26	25	24
Berat	14	21	21	20	21	21	22
Gjirokastër	20	25	24	24	24	23	23
Kukës	6	8	9	9	10	9	9
Dibër	7	8	8	9	10	10	10
Total	399	511	524	529	534	538	529

From the above table it can be noticed that commercial banks are more concentrated in Tirana region due to the greater number of population, but also to a broader economy activity. In general, banks, branches or their agencies are located mainly in urban centers. But, an efficient financial institution structure relies not only on financial data, but also as per respective geographical distribution in the country, including rural zones.

Banks in Albania have as a competitive strategy the offering and increase of services to the clients as per "Internet Banking" and points of sale, while more services are more and more required in "Mobile Banking". This way further increase of presence of banking services in deep rural areas is achieved. Mobile phones do offer the opportunity to expand financial services in rural areas to be used not only for information purposes but also for online payments etc. Surely, the possibility of penetrating the rural zones is constrained from the internet extension in these respective rural areas, see Table 3 (Bank of Albania, 2013).

Table 3: Electronic products approved from Bank of Albania

Electronic products	2007	2008	2009	2010	2011	2012	2013	Total
Debit cards	4	2	2					8
Credit cards	3	1	1	1				6
ATM	4	2	2					8
POS	2	2	1					5
Virtual POS (E-commerce)							2	2
Internet banking	2	3	2	2				9
Phone banking		1						1
Mobile banking		1	1	1	1	1	2	7

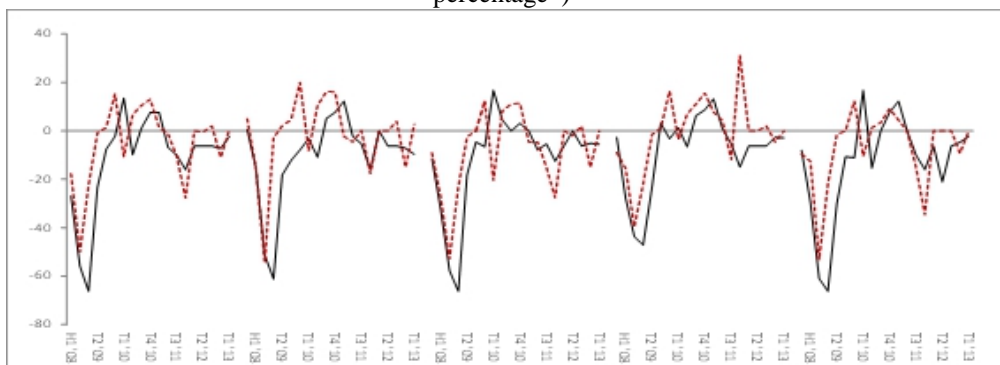
From the above table, it can be noticed that mobile banking lately is given a higher importance in the market while debit cards are of a bigger share than credit cards; virtual POS is almost inexistent and the same for phone banking, implying so a lower knowledge from the customers of the electronic products available in the market.

Now that a general view of how the banking sector is structured and operates in Albania, it is time to study how the banking sector does perceive the lending activity to agriculture.

### **Observation in the banking sector about lending to agriculture**

To achieve an understanding of the perception that the banks in Albania have toward agriculture, a survey was realized with 16 banks operating in the country. The survey was based in the bank's lending forecasting as per economic activity (in general for the country, and in particular for the agricultural sector). During the survey, information was received from 16 banks in the country for the period 2007-2012. For the survey the methodology used was the monthly inflows, in million Lek. From the survey it resulted that banks operating in the country have generally followed a prudent lending policy (the lending level for the 2012-2013 period has been constant) reaching in 2012 a total value of 28.470 million Lek for the country. The "Agriculture, hunting and silviculture" weight sector to total loans granted by the banking sector remains at low levels (without reaching 2% of the loan portfolio). From the survey it resulted that the factors affecting such ratio were: (1) global economic crisis translated into crisis carried in years in Albania; (2) banking experience – within the domestic market only one bank is experienced enough in agricultural lending; (3) remittances to family farmers are declining (due to the global economic crisis). Such it will be more difficult for family farmers to find other sources of income to cover the cash payment of bank loans. The following chart shows the trend of lending to businesses:

Chart 1: Lending as per business size and the purpose of the credit (net balance in percentage\*)

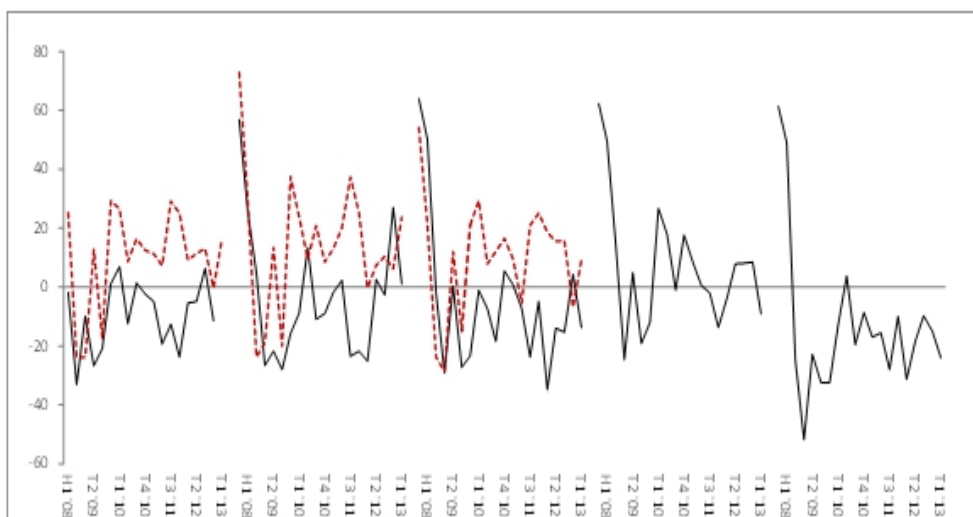


Total Business SME Corporation Floating capital Investment

**Note: The red line shows expectations, while the black one shows actual values. The banks answers for the credit activity are aggregated through the “net balance” indicator.**

The net balance is calculated as the difference between the weighted responses of banks, the one which have reported softening / increase of standards / demand and those which have reported tightening / decrease of standards / demand. Weights were calculated based on the ratio of the loan portfolio of each bank to total credit, for different market segments, by type of question (credit to business / individuals, in Lek / foreign currency). The positive balance indicates the softening of standards, while negative balance indicates a tightening of standards. What results from the above graph is that banks, starting from 2008 (the year when the data are available) have followed a careful policy of lending to businesses to keep somewhat tighter credit standards. Sometimes they facilitate standards but this relief is not perceived by businesses. In general, for the second quarter of 2013, banks have responded that lending standards for businesses will be kept unchanged from the previous quarter.

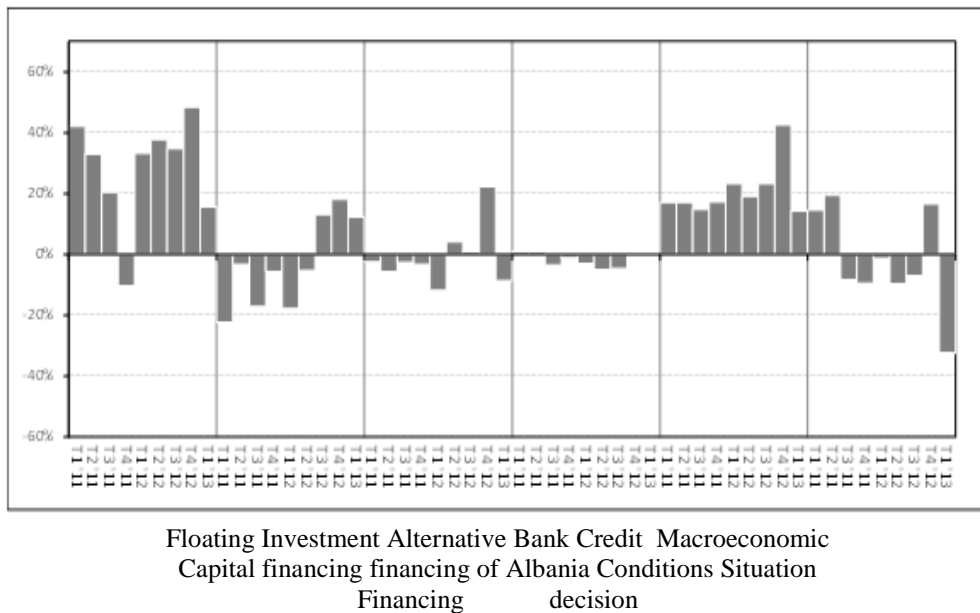
Chart 2: The impact of factors to credit standards for the businesses (net balance)



**Note: The red line shows expectations, while the black one shows actual values. The “net balance” indicator – the net percentage of banks which have responded for an increase of demand.**

The chart above shows that the main factors that determine the low demand for business loans are: macroeconomic situation in the country, and the use of alternative sources of financing (informal sources).

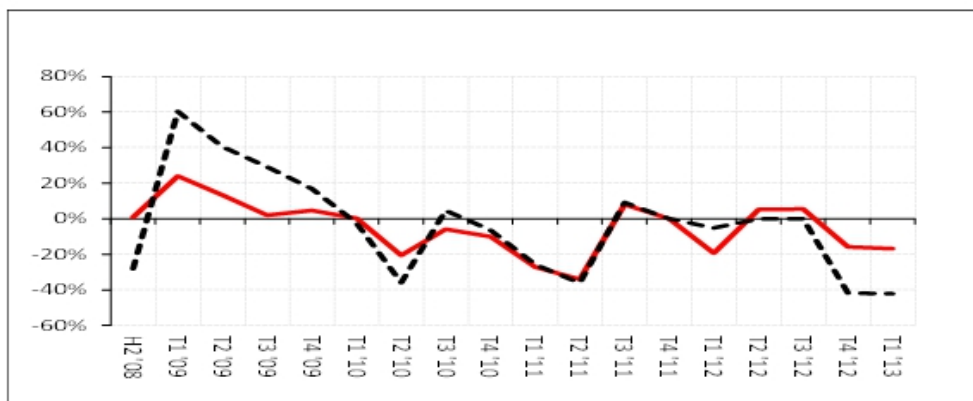
Chart 3: Factors affecting the credit demand of businesses (net balance\*)



**Note: The positive balance shows an increase of demand or that the factor has impacted by increasing the demand, while the negative balance shows a decrease of demand or that the factor has impacted by decreasing the demand for credit.**

What results from the survey is that the factors that have contributed to reduce the demand for credit in the period of observation (2008 - 2013) were: financing and investment decisions of the Bank of Albania, and the macroeconomic situation.

Chart 4: Banks expectations for interest rates (on the right) on quarterly basis (net balance – net percentage of banks expecting for the indicator to increase)

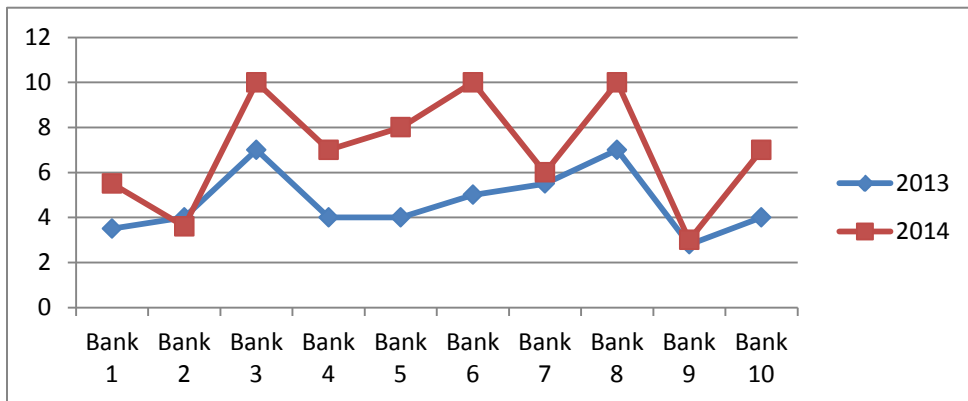


**Note: The black line shows the expectations for interest rates in foreign exchange value, while the red line the expectations for the**

**interest rate in lek. The positive balance shows an increase of the interest rate, while the negative balance shows a decrease of the interest rate.**

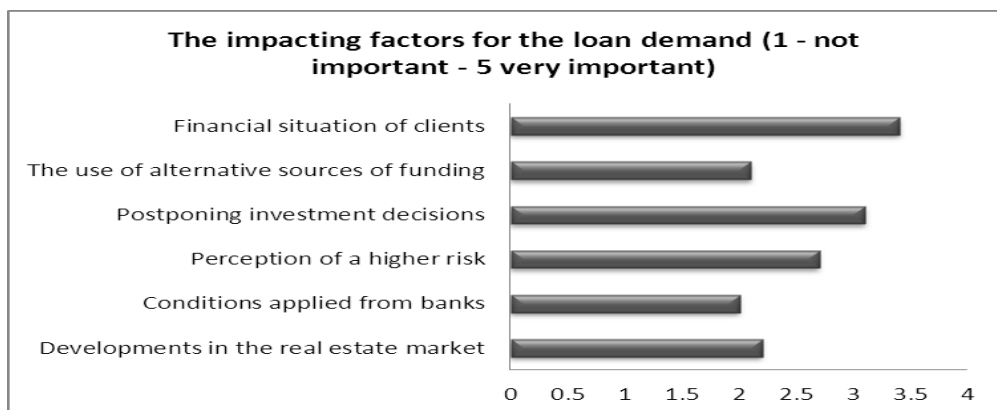
A separate part of the survey conducted in the banking sector, was dedicated to the performance of the loan portfolio of the banks.

Chart 5: Total loan portfolio per bank and their tendence for the next two years (in %)



The above chart shows that banks in Albania have projected growth of lending activity to the private sector. The following are the factors influencing the demand for credit.

Chart 6: The impacting factors for the loan demand expectations (2013 – 2014)



The survey demonstrates that, for the 2013 - 2014 period, banks have defined as very important factors in the demand for loans expectations: a) the financial condition of customers; b) the postponing investment decisions and c) perception of higher risk from customers.

The survey showed that banks perceive agricultural sector as profitable as per its business nature, and that more and more they are shown their interest in this sector. Also, in this regard television and media have influenced and, where a strong support seems to come from the public sector

for investments in agriculture. But on the other hand, according to the survey, only one bank has dedicated to agriculture lending more than 20% of its total loan portfolio. While the rest of the banks allocated to agriculture lending not more than 5%. As per portfolio quality expectations, banks were asked to express a rating on a scale of 1-5 (where 1 means "not improved" and 5 means "will be much improved"). The following data were encrypted and are weighted with ratios that banks occupy in the total loan portfolio. From the survey it is perceived that if in 2010 the banks expected an improvement of the loan portfolio for businesses in the agriculture sector, this was not expected in the previous two years. For 2013, in addition to the growth of the loan portfolio, banks also expected credit quality improvement to the agricultural sector. According to the survey answers, the expectation of the performance of the loan portfolio quality for agriculture in 2013 achieved a level of 20.6% (a positive change of about 17 basis point comparing to the previous years).

For the purpose of our study the survey conducted for the banking sector in Albania included questions about credit conditions in the agricultural sector and expectations in the near future. The 10 largest banks in Albania answered to the questionnaire. The results of the survey are outlined below:

No.	Question	Comments
1	During the last quarter, how have the <u>standards/criteria</u> of your bank toward <u>individual lending</u> changed?	3 banks – have tighten standards; 4 banks – have not changed standards; 3 banks – have relieved standards.
2	During the last quarter, how have the <u>approval criteria</u> of individual lending changed?	The installment to revenues ratio has been strengthen. (relieve=increase, strengthen=decrease)
3	In addition to seasonal fluctuations, during the last quarter, how has the individuals demand for credit changed (consumer loans)?	3 banks – the demand is the same; 5 banks – the demand has slightly increase; 2 banks – the demand has slightly decreased.
4	During next quarter, how do you expect for the banks <u>standards</u> to change in approving <u>loans for individuals</u> ?	3 banks – standards will be tightened; 4 banks – standards will not change; 3 banks – standards will be relieved.
5	During next quarter, what is your perception about the interest rate of the loan?	5 banks – the interest rate will not change; 3 banks – the interest rate will decrease; 2 banks – the interest rate will increase.



6	Which are the reasons for the above answers?	1- The high costs of funds; 2 – Bank of Albania politics; 3 – Revenues currency; 4 – Market conditions.
7	In the short term-mid term budget of your bank, what is the individual portfolio credit growth projected?	Mainly over 20%
8	In the short term-mid term budget of your bank, how is projected the increase of credit portfolio for agriculture?	Only “Procredit Bank” has projected over 20%, the other banks between the 0-5% increase.
9	How do you think will be the performance of quality of the credit portfolio of the bank according to short and mid term, compared to the 2010 performance for agriculture?	Mainly it will remain unchanged.
10	Which strategy would you prefer in treating problematic loans?	Only one bank performs the collateral execution. The other banks prefer debt restructuring.

From the questionnaire answers it is shown that the agricultural sector it is strongly supported from only one bank. While the rest of the banks in their respective portfolios appear with 0-5 percent lending to agriculture. For problematic loans, generally banks apply debt restructuring than the execution of collateral due to legal costs. On the other hand, it results that collateral requirements from individuals have increased and lending interest rates will also grow, due to the actual market conditions.

The analysis shows that the structure of the portfolio of financial institutions in lending has not changed. Generally lending to the agricultural sector constitutes a maximum of 1.54% of the loan portfolio of the banking sector.

## Conclusion

The banking sector in Albania is consolidated per se in this short period of history of existence in the country. Around 16 banks do operate in Albania and their number has remain the same for the last years. Their expansion in the Albanian territory is wide but it is mainly concentrated in urban areas (mostly in capital city and surroundings where economy activity is more vivid). Thus making it more difficult for farm holders to be in daily contacts with banking services. The survey realized in the banking sector, to understand their perception for the lending activity in general, and agriculture lending in particular shows that banks have followed a careful lending policy since 2008 and lending standards will remain tightened even for the following years. According to such criteria, main factors which have affected the low demand for loans were the macro situation in Albania and the use of alternative financing sources. Banks in Albania do predict an

increase in their respective loan portfolio (not more than 5% increase), but only one of them considers to dedicate more than 20% of its loan portfolio to agriculture. Most of the banks are dedicating to agriculture lending not more than 2-3% of total loan portfolio even though their perception of the quality of agriculture loan portfolio is positive. This because agriculture sector is perceived as a risky one, with no agriculture insurances in place, no contract agreements assuring agriculture product sales and thus implying safe future cash flow for loan installments. More tightened lending standards are being applied to individuals and resulting this way with portfolio structure of banking institutions not changed during the last years.

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